

Commonwealth of Kentucky
Kentucky Department of Revenue

**Modernized e-File (MeF) Guide
for Software Developers and Transmitters**

Business Income Tax

KY PUBLICATION 4163



**Tax Year 2016
Processing Year 2017**

**December 20, 2016
Version 1.4**

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Date	Action
11/17/2016	Version 1.2 – Added due date information
11/22/2016	Version 1.3 – Corrected year reference in Section 8 regarding direct deposits.
12/20/2016	Version 1.4 – Updated mailing addresses and specified ATS instructions/dates.

Section 1: INTRODUCTION

The Kentucky Department of Revenue (KDOR) in conjunction with the Internal Revenue Service (IRS) accepts state business income tax returns and corresponding forms and schedules by method of the Modernized E-File system (MeF). The transmission method is a Web Service using Simple Object Access Protocol (SOAP) with attachments messaging. The return data should be formatted using Extensible Markup Language (XML). Authorized E-File providers, also known as Electronic Return Originators (ERO's) can submit returns to the IRS MeF system for federal and state return processing. State returns can be submitted as a federal return with a state return attached, called a "linked" return, or as a state return, known as an "unlinked" submission. Each return (linked or unlinked) must be in a separate submission. A copy of the federal return is required for all Kentucky state returns submitted. Multiple submissions may be contained in a single message payload. Software developers must test with the Kentucky Department of Revenue and receive approval prior to submitting live returns.

The material in this publication will provide software developers the necessary information for capturing and formatting Kentucky income tax data and the associated federal information required as part of a Kentucky return. The information included in these specifications does not provide all the various tax instructions and tax law detail necessary in the preparation of the Kentucky corporate return. Please refer to the Department's website at www.revenue.ky.gov for additional forms, schedules and instructions.

This publication does not represent the requirements and procedures issued by the IRS. All IRS requirements must be adhered to in developing the Kentucky return and participating in the fed/state e-file program. See IRS Publications 4163, Modernized e-file Guide for Software Developers and Transmitters.

Kentucky will support the e-filing of Form 720, Form 720-S, Form 725, Form 765, Form 765GP, Form 720-SL and Form 40A102 for the 765-GP through MeF for tax year 2016. The current schema version will be posted on our Software Developer's Information / Modernized Electronic Filing webpage at <http://revenue.ky.gov/Software-Developer/Pages/Modernized-Electronic-Filing.aspx>.

Section 2: OVERVIEW OF 2016TY / 2017PY CHANGES

NEW FORMS & SCHEDULES

The 720 consolidated return has been added to e-file for tax year 2016 including the Form 851-K, Schedule KCR, Schedule CR and Schedule A-N.

The Form 40A102 (extension for Form 765-GP) and Form 725-Kentucky Single Member LLC Individually Owned LLET Return are new for TY2016.

The Form 725 can be filed through BMF or IMF depending on the type of federal return corresponding with it. If the Form 1040 is completed, the Form 725 should be completed through IMF. If the Form 1065 is completed, the Form 725 should be completed through BMF. A copy of the federal return is required in both instances.

Kentucky Department of Revenue Address Changes effective January 1, 2017

- Individual Income Tax with payment
(42A740, 42A740EZ, 42A740NP, 42A740X)
Kentucky Department of Revenue
PO Box 856980
Louisville, KY 40285-6980
- Individual Income Tax without payment
(42A740, 42A740EZ, 42A740NP, 42A740NPR, 42A740X)
Kentucky Department of Revenue
PO Box 856970
Louisville, KY 40285-6970
- K-2's paper filing
Kentucky Department of Revenue
PO Box 856950
Louisville, KY 40285-6950
- Corporate Income Tax with Payment
(41A720, 41A720S, 41A725, 41A765)
Kentucky Department of Revenue
PO Box 856910
Louisville, KY 40285-6910
- Corporate Income Tax without payment
(41A720, 41A720S, 41A725, 41A765)
Kentucky Department of Revenue
PO Box 856905
Louisville, KY 40285-6905

Section 3: CONTACT INFORMATION

The e-file help desk is for use by the software development and tax preparation communities regarding Kentucky e-file technical specifications/issues, schemas, and testing.

The help desk operating hours are Monday through Friday, 7:00 a.m. through 3:30 p.m. (EST). The help desk will observe all state holidays.

E-file Help Desk Contact Information
Help Desk Phone # 502-564-5370

Christopher Rains (Chris)
Department of Revenue
Division of Operations
E-Commerce Branch
501 High Street, Station 22
Frankfort, KY 40601-2103
Phone: (502) 564-7926
E-Mail: Christopher.Rains@ky.gov

Audrey J. Terry
Department of Revenue
Division of Operations
E-Commerce Branch
501 High Street, Station 22
Frankfort, KY 40601-2103
Phone: (502) 564-7862
E-Mail: AudreyJ.Terry@ky.gov

Reference: Software Developer's website: <http://revenue.ky.gov/Software-Developer/Pages/default.aspx>

Section 4: ACCEPTANCE & PARTICIPATION

Kentucky will accept returns electronically from any IRS approved software provider upon completion of testing with the Kentucky Department of Revenue.

A Statement of Intent is required prior to participation in ATS testing. A copy of the Statement of Intent is located on the MeF web page: <http://revenue.ky.gov/Software-Developer/Pages/Modernized-Electronic-Filing.aspx>

Each year vendors are required to update the following information before they begin testing with the Kentucky Department of Revenue:

- SoftwareID
- Primary contact name
- Primary e-mail addresses
- Primary telephone number
- Software Company Name / Market Name
- Mailing Address
- Company web address

The 'SoftwareID' data element is required in the schema. The SoftwareID must be all upper case within the XML. Please contact Chris Rains should you require a software ID.

Section 5: DEVELOPER'S RESPONSIBILITIES

Developed software must meet the following requirements:

1. Adhere to all federal and state procedures, requirements and specifications. These requirements are specified in IRS Publication 4163, *Modernized e-File Guide for Software Developers and Transmitters*.
2. Successfully complete all testing.
3. Be developed in accordance with statutory requirements and Kentucky Department of Revenue return preparation instructions.
4. Provide accurate Kentucky tax returns in correct electronic format.
5. Provide data validation, verification, and error detection to prevent transmission of incomplete, inaccurate, or invalid return information.
6. Software provider must be available to correct any software errors, which may occur after production begins, and work with the Kentucky Department of Revenue to follow up on any processing issues that may arise during filing season. If software providers need to re-release corrected software, it should be done in a timely manner and proper notification should be made to all customers.

Section 6: SOFTWARE ACCEPTANCE, TESTING & APPROVAL

1. Software developers that meet the current testing requirements set forth by the IRS are invited to test for Kentucky Department of Revenue acceptance. In order to participate in the Federal/State Electronic Filing Program, participants must apply to the IRS Electronic Filing Program. Federal Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, specifies the application process and requirements for federal participation. The IRS definition of the various categories of electronic filers (electronic return originator, transmitter or software developer) will apply for Kentucky electronic filing purposes under the federal/state program.
2. A completed 2016 Kentucky Tax Software Provider Letter of Intent (LOI) is required. The LOI is maintained on the FTA State Exchange System (SES). The names of the authorized SES tax industry users will be provided to the states by the National Association of Computerized Tax Processors (NACTP). Access to the SES is limited to 2 authorized users from each tax software company. Contact the NACTP with requests to be added to the industry list. Requests for access to the Kentucky folder in SES should be sent to AudreyJ.Terry@ky.gov. Once the request from the industry partner is received, KDOR will check the authorized user list and make the determination to grant access to the Kentucky folders in SES. A separate LOI should be completed for each product. Please send the completed LOI to Christopher.Rains@ky.gov. The LOI should be submitted prior to beginning your testing.
3. All transmissions must contain the 'SoftwareID'. Contact Christopher.Rains@ky.gov if you do not currently have a Kentucky Software ID. This identification must be verified before the first test file is transmitted. The SoftwareID must be all upper case within the XML or it will cause the submission to reject.
4. The Kentucky Department of Revenue will accept test returns for tax year 2016 based on the schedule found in Section 11 of this document. The Kentucky MeF testing system is subject to IRS availability and dates are subject to change. Please e-mail Christopher.Rains@ky.gov when sending test returns and include your Software ID, the Submission id's associated with the test returns being submitted and any software limitations.
5. Software developers are encouraged to support all schedules, forms and occurrences. It is important that customers are provided with the complete range of services. Please submit linked and unlinked returns within your test package.
6. If your software does not support all forms and schedules or occurrences, please inform the Kentucky Department of Revenue before the first transmission so we can take this into consideration when reviewing your test submission.
7. Acknowledgements will be provided for all test returns. The return will be either accepted or rejected. An 'Accepted' acknowledgement does not mean your

software is approved for release, it merely means that the system acknowledges having accepted the return for processing.

8. The Kentucky Department of Revenue will provide test results in a timely manner, usually within 48 hours of receipt of the submission. A software provider who successfully completes testing will receive an approval letter via an e-mail to the contacts provided.
9. The range of EINs available for ATS testing will be **00-0150100** through **00-0150999**.
10. Kentucky will continue to accept criteria based tests for TY2016.
 - Tests should include all major forms and any new fields supported by the software.
 - A minimum of 2 K1s per applicable return type is expected.
 - Test at least 6 Economic Development credits that you support.
 - Tests should include the different types of returns: tax due, refund, credit forwards
 - At least one test should include a direct debit transaction if the software supports this product
 - You are not limited to the number of tests you create for review but we suggest no more than 15.
 - Provide a PDF copy of the state return for each tests and include page 1 of the federal return.

Section 7: ACKNOWLEDGEMENT SYSTEM

The Kentucky Department of Revenue will generate an acknowledgement of acceptance or rejection for all returns received. The acknowledgement record will be in a format approved and agreed upon by the IRS, state agencies, transmitters and software developers.

Transmitters and software developers should allow 2 working days to receive the state acknowledgement before contacting the department to determine why an acknowledgement has not been received.

To check on the status of a Kentucky acknowledgement, contact Audrey Terry, Richard Hill or the Electronic Filing Helpdesk by phone or e-mail. Please be prepared to provide the following information in order to track the status of the submission:

- Transmission Date
- Submission ID

Section 8: GENERAL INFORMATION

To see what forms are included in each series within the schema, please refer to the individual ReturnData.xsd for each return type.

At this time, all schedules for filing a Kentucky corporate income tax return have been included in the schemas.

All Kentucky withholding claimed should be supported by an income tax statement. The following income statements are available as schemas: Form PTE-WH, 720S K1, 765-Sch K1, and 765GP-Sch K1.

Many of the tax credits that can be claimed on corporate income tax returns require a taxpayer to receive approval before the credit can be claimed. If approval is required, it should be completed/received prior to claiming the credit on the income tax return. To determine if a tax credit requires pre-approval, please refer to the instructions for the applicable tax return. Return processing could possibly be delayed for credit verification of tax credits if they are listed on the Schedule TCS. The Schedule TCS also asks for the Project Number (Element Name <EconDevNumber>) which is set for 15 alpha/numeric characters. Precede the filer's project number with zeros if the number provided is not the full 15 character length.

The Kentucky Department of Revenue will accept the following return types:

- Linked (Fed/State): An original federal return submitted with one original state return.
- Unlinked (State Only): A copy of the federal return is still required with an unlinked return submission.

Required Data Elements

- There are certain elements in the Form 720, Form 720S, Form 765, and Form 765GP, schema that are listed as optional, however they should **ALWAYS** be completed and transmitted.
- Kentucky is now accepting electronic filing of the Form 41A720SL, Application for Extension of Time to File Corporate Income Tax Returns. **If the taxpayer wishes to file an extension for the 765GP note that this is filed on the INDIVIDUAL Form 40A102 and not the 41A720SL.** The Form 40A102 has **NOT** been included in the BMF schema.
 - **No binary attachments will be accepted with the Form 41A720SL.**

Decimal places and percentages

- Please refer to individual schemas for specifics.

Numeric Fields

- Amount fields should be set as whole dollar. Kentucky numeric fields accommodate up to 15 total digits.

Attachments

We will accept PDF documents as binary attachments, limited to those documents that are not included in our schema.

- If an XML schema is present and your software does not support that form and there are reject codes in place and these forms are not listed in the table below then it will cause the return to fail and you will need to submit a paper return or chose to support that form.
- Currently Kentucky is asking that the following forms be submitted via PDF within each submission regardless if an XML schema is present for the form:

Form Number	Form Name	Recommended PDF File Name	Description to be Used in Binary Attachment.xsd
720S-DK	Form 720S Schedule D-K	720SDK	720S Schedule D-K
765-DK	Form 765 Schedule D-K	765DK	765 Schedule D-K
41A720-S86	Notice of Endow Kentucky Tax Credit and Certification	ScheduleEndow	Schedule Endow
41A720-S85	Application for Preliminary Authorization of the Endow Kentucky Tax Credit	EndowApplication	Endow Application
41A720-S80	Application for Certification of Qualified Equity Investments Eligible for Kentucky New Markets Development Program Tax Credit	Form8874K	Form 8874(K)
41A720-S81	Notice of Kentucky New Markets Development Program Tax Credit and Certification KRS 141.433	Form8874KA	Form 8874(K)-A
41A720-S82	Notice of Kentucky New Markets Development Program Tax Credit Recapture KRS 141.433	Form8874KB	Form 8874(K)-B

Rejected Returns

See the complete list of reject codes listed on the software developer's page listed on our website: <http://revenue.ky.gov/Software-Developer/Pages/Modernized-Electronic-Filing.aspx>

Sample:

ErrorCategory

ErrorMessage

XML Validation

<Actual XML Error Message>

Duplicate Return

Original Return already received for this tax year by FEIN.

Common Errors

- **Invalid KY Corporate/LLET Account Number:**

Any Kentucky form or schedule that requires a KY Corporate/LLET Account Number must be populated with the matching number associated with the FEIN. Based on the FEIN provided, the KY Corporate/LLET Account Number must match the Kentucky Department of Revenue's records. If a submission is rejected for an incorrect account number it is very likely that it could trigger subsequent reject codes.

- If a filer receives an error for an invalid KY Corporate/LLET Account Number, subsequent errors related to the comparison of data will occur even if the data is accurate. Once an accurate account number(s) is obtained the error should correct itself as long as it matches Kentucky Department of Revenue's records.
- To avoid rejection for invalid KY Corporate/LLET Account Number we encourage taxpayers/preparers to contact Taxpayer Registration at 502-564-3306 to verify and/or obtain account numbers prior to e-filing. If a number has to be activated or an account is updated, it takes approximately 1 week for the lookup table to be revised for the match to occur.

- **Prior Year Credit:**

The credits cannot be taken in one tax type in the previous year and then applied to the other tax type the following year. Example: If a filer has a LLET credit of \$175 in the prior year they cannot apply the \$175 against the corporate income liability the following year.

- If you are unable to resolve your issue you may call 502-564-8139 for further assistance.

Exclusions from Electronic Filing

- Pass-through Entity credits **only with tax liabilities and estimated payments:**
 - ♦ Sch FON-SP ♦ Sch KEOZ-SP ♦ Sch KIRA-SP ♦ Sch KREDA-SP
 - ♦ Sch IEIA-SP ♦ Sch KESA-SP ♦ Sch KJDA-SP ♦ Sch KRA-SP
 - ♦ Sch KBI-SP ♦ Sch KIDA-SP ♦ Sch KJRA-SP
- Return with more than 5 Economic Development Tax Credits in Part I of Schedule TCS.

Federal Forms & Schedules Required

- Kentucky requires a complete copy of the XML federal return and wage and income statements to be sent along with the Kentucky XML return whether sent as a "linked" or "unlinked" submission.

Amended & Prior Year Returns

- Amended and prior-year returns will not be accepted in MeF at this time.

Perfection Period

- Kentucky follows the IRS 10 day perfection period on rejected corporate income tax returns.

Direct Deposit and Direct Payment

- Kentucky accepts only direct payment (ACH debit) requests on Forms 720, 720S, and 765 MeF returns. The Financial Transaction is restricted to allow only one state payment. Currently we are unable to accept future dated debit transactions. The debit transaction will post at the time the return is accepted. **At this time, Kentucky is not able to process International ACH Transactions. Therefore, the checkbox for “NotIAIndicator” should be checked on all Financial Transactions.**
 - **Direct Deposits are not accepted for tax year 2016.**

Signature Process

- PIN Signature process used for the federal return is accepted for the Kentucky signature requirement.
- Form 8879(C)-K is the required signature / attachments document.
- No signature document should be mailed to Kentucky unless requested.
 - **A rejected payment will not necessarily result in a rejected return.**

Electronic Filing Program Publications and Forms

<u>IRS Form</u>	<u>Name</u>	<u>State Equivalent</u>
Pub 4163	Modernized e-File Guide for Software Developers & Transmitters	KY-Pub 4163
Pub 5078	Corporate Income Test Package	Testing information can be found on the KYDOR website
Form 1040-ES/ 1120W	Payment Voucher	Form KY-720-V

Section 9: Schemas & Transmission Specifications

- The Kentucky forms-based schema has been developed to match all tax forms and schedules included in our e-file program.
- Software developers should apply the data element restrictions documented in the schema to the corresponding data elements in their software.
- Annotations are provided for all line items to help in the development process, as well as to provide additional information when a submission is rejected.
- All XML data must be well formed.
- Packaging of data and transmission payload must be in the proper format.
- Returns filed in XML format with SOAP attachments allow for binary attachments to the submission. These attachments may consist of credit schedules, statement records, or other types of documentation. The allowed file type for an attachment is file extension .PDF. The file order of attachments and procedures must follow the IRS requirements for binary attachments as found in IRS Publication 4163.
- Each PDF attachment should be given a unique file name. PDF attachment names may contain letters and numbers. The name should reference the Form/Schedule and line number when possible. The PDF should only have one file extension '.pdf' The LinkToAttachment element in the XML state return must match the actual file name of the pdf.
- The SOAP message itself must not be compressed or zipped.
- If the IRS rejects a Fed/State submission, the state will not receive the state return portion. The Fed/State submission must be re-submitted.
- Each submission (state return, federal return, manifest and attachments) must be in Zip archive format. The zip file name should be in the following format: 99999999999999999999.zip, where the 9's represent the submission id. The state submission should be named 99999999999999999999.xml
- The manifest schema is controlled by TIGERS and the IRS.
- No nesting of zip archive files or returns will be allowed. (i.e. one submission, one zip.)
- The message must contain a header, a body, and an attachment. See Modernized E-File Logical ICD Model for message layout and message technical specifications.

- ERO's and transmitters must be approved with the IRS in order to transmit MeF returns.
- The Kentucky Department of Revenue will produce an acknowledgement of acceptance or rejection for each state submission. The transmitter may then retrieve Kentucky's acknowledgement from the IRS.
- The Kentucky Department of Revenue requests that vendors not submit form tags for any schedules, worksheets or forms that are not used in the return.
- The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 720 should be KYForm720, Form 720S should be KYForm720S, Form 720-SL should be KYForm720SL, Form 765 should be KYForm765, Form 765GP should be KYForm765GP. **An incorrect Return Type or State Submission Type will cause a schema validation failure and the submission will be rejected.**

Section 10: Kentucky Form Edits

This Section contains field information rules that should be followed by all developers on the primary Kentucky return and supporting schedules when electronic return data is processed. This should be used as a guide to assist tax software developers.

Forms series 720, 720S, 725, 765, 765GP

Software packages may or may not support all forms available for Kentucky electronic filing. Any electronic tax returns submitted without all required forms will be rejected. See the following website for a list of rejection codes: <http://revenue.ky.gov/Software-Developer/Pages/Modernized-Electronic-Filing.aspx>

Financial Transaction Record

The financial transaction record has been altered to allow only one direct debit payment account. Amount fields should be sent as whole dollar amounts for Kentucky purposes. All Routing Transit Numbers (RTNs) must begin with "01" through "12" or "21" through "32" and are a maximum of nine (9) digits. All Depositor Account Numbers (DANs) are a maximum of seventeen (17) digits.

No partial payments are accepted when filing the return. If a state payment is requested, the state payment amount (element name PaymentAmount) must equal the Total Payment amount (element name TotalPymtLLETCorplnc) reported on the Tax Summary section. Both these payment amounts must be **whole dollar amounts** for Kentucky purposes. If the payment amount does not equal the Total Payment amount, the ACH debit will be rejected but that does not mean the return would be rejected. If the state payment is rejected, the taxpayer will need to remit payment by submitting Form 720-V by the appropriate due date to avoid a late payment penalty.

Section 11: Important Dates

Important Dates for TY2016

For Taxable Period beginning January 1, 2016, and ending December 31, 2016:

Begin Federal/State software testing for Forms 720	11/15/2016
Begin Federal/State software testing for Form 720S	11/15/2016
Begin Federal/State software testing for Form 725	TBD
Begin Federal/State software testing for Form 765	12/15/2016
Begin Federal/State software testing for Form 765GP	12/15/2016
Begin Federal/State software testing for Form 720-SL	11/15/2016
Begin Federal/State software testing for Form 40A102	11/15/2016

Begin transmitting Form 720 return to IRS/KDOR	1/06/2017
Begin transmitting Form 720S return to IRS/KDOR	1/06/2017
Begin transmitting Form 725 return to IRS/KDOR	TBD
Begin transmitting Form 765 return to IRS/KDOR	1/06/2017
Begin transmitting Form 765GP return to IRS/KDOR	1/06/2017
Begin transmitting Form 720-SL application to IRS/KDOR	1/06/2017
Begin transmitting Form 40A102 return to IRS/KDOR	1/06/2017

Last Day to transmit TY2015 Kentucky returns electronically	12/26/2016
Last Day to transmit TY2016 Kentucky returns electronically	TBD

Last Day for all fed/state rejected TY2015 returns to be re-transmitted and accepted	12/26/2016
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The due date for Corporate and Pass-through entity returns remains the 15th day of the 4th month.

NOTE: These dates are subject to change at any time.